

**CITY OF HALLOCK
HALLOCK, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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CITY OF HALLOCK
ROSTER OF CITY OFFICIALS
AS OF DECEMBER 31, 2021

<u>Names</u>	<u>Office</u>
Dave Treumer	Mayor
Naomi Larson	Council Member
Jennifer Peterson	Council Member
Michael Totleben	Council Member
Kevin Waller	Council Member
Aimee Sugden	City Clerk Administrator

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Hallock
Hallock, Minnesota

Report on the Financial Statements

Qualified and Unmodified Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallock, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Summary of Opinions

<u>Opinion Units</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
2011 Street & Utility Fund	Unmodified
2015 Refunding Bond Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Gas Distribution Fund	Unmodified
EDA Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

Qualified Opinion on Governmental Activities and Aggregate Remaining Fund Information

In our opinion, except for the effects of the matter described in the "Basis for Qualified and Unmodified Opinions" section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and aggregate remaining fund information of the City of Hallock as of December 31, 2021, and the changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Business-Type Activities and each Major Fund

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the City of Hallock as of December 31, 2021, and the respective changes in the financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Hallock, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinion on Governmental Activities

Management has not adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* for the Hallock Fire Relief Association. Accounting principles generally accepted in the United States of America require that GASB Statement No. 68 be adopted for governmental activities, including Fire Relief Associations. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position of the Governmental Activities has not been determined.

Matter Giving Rise to Qualified Opinion on the Aggregate Remaining Fund Information

Management did not properly account for the owner's share of the small cities grant in the prior years. Accounting principles generally accepted in the United States of America require receivables to be recorded when both measurable and available. The amount by which this departure would affect the assets, liabilities, and fund balance of the Aggregate Remaining Fund Information has not been determined.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always

detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hallock, Minnesota's basic financial statements. The combining fund financial statements and schedule of changes in fund balance and net position as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedule of changes in fund balance and net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and schedule of changes in fund balance and net position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

The listing of the city officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2022, on our consideration of the City of Hallock's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hallock's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA**

June 28, 2022

CITY OF HALLOCK
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,186,235	\$ 1,799,622	\$ 2,985,857
Accounts Receivable (Net of Allowance)	-	129,062	129,062
Taxes and Special Assessments Receivable	366,366	-	366,366
Due from Other Governments	229,500	-	229,500
Notes Receivable - Current Portion	-	10,762	10,762
Inventory	-	45,763	45,763
Prepaid Expenses	36,204	11,005	47,209
Total Current Assets	<u>1,818,305</u>	<u>1,996,214</u>	<u>3,814,519</u>
Non-Current Assets:			
Capital Assets:			
Nondepreciable:			
Land	607,376	83,420	690,796
Construction in Progress	2,438,821	-	2,438,821
Depreciable:			
Plant and Equipment	2,350,750	4,760,795	7,111,545
Buildings	3,023,587	-	3,023,587
Infrastructure	6,017,619	-	6,017,619
Less Accumulated Depreciation	<u>(6,315,986)</u>	<u>(3,395,245)</u>	<u>(9,711,231)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>8,122,167</u>	<u>1,448,970</u>	<u>9,571,137</u>
Other Non-Current Assets			
Note Receivable (Net of Allowance)	-	44,578	44,578
Total Noncurrent Assets	<u>8,122,167</u>	<u>1,493,548</u>	<u>9,615,715</u>
Total Assets	<u>9,940,472</u>	<u>3,489,762</u>	<u>13,430,234</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	<u>147,660</u>	<u>52,677</u>	<u>200,337</u>
Total Deferred Outflows of Resources	<u>147,660</u>	<u>52,677</u>	<u>200,337</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	94,020	59,001	153,021
Accrued Wages	3,019	4,883	7,902
Sales Tax Payable	-	7,318	7,318
Unearned Revenue	50,325	22,411	72,736
Accrued Interest Payable	13,306	4,623	17,929
Meter Deposits Payable	-	8,365	8,365
Compensated Absences Payable - Current Portion	2,166	3,213	5,379
Bonds Payable - Current Portion	<u>355,000</u>	<u>70,000</u>	<u>425,000</u>
Total Current Liabilities	<u>517,836</u>	<u>179,814</u>	<u>697,650</u>

See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF NET POSITION - CONTINUED
DECEMBER 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Non-Current Liabilities:			
Compensated Absences Payable (Net of Current)	\$ 15,432	\$ 19,272	\$ 34,704
Net Pension Liability	134,258	68,155	202,413
Bonds Payable (Net of Current)	<u>1,141,977</u>	<u>654,000</u>	<u>1,795,977</u>
Total Non-Current	<u>1,291,667</u>	<u>741,427</u>	<u>2,033,094</u>
Total Liabilities	<u>1,809,503</u>	<u>921,241</u>	<u>2,730,744</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	<u>205,712</u>	<u>73,397</u>	<u>279,109</u>
Total Deferred Inflows of Resources	<u>205,712</u>	<u>73,397</u>	<u>279,109</u>
NET POSITION			
Net Investment in Capital Assets	6,625,190	724,970	7,350,160
Restricted For Debt Service	786,320	-	786,320
Restricted For Small Cities Grants	43,198	-	43,198
Restricted for Revolving Loan Funds	-	23,596	23,596
Unrestricted	<u>618,209</u>	<u>1,799,235</u>	<u>2,417,444</u>
Total Net Position	<u>\$ 8,072,917</u>	<u>\$ 2,547,801</u>	<u>\$ 10,620,718</u>

See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 218,948	\$ 7,472	\$ -	\$ -	\$ (211,476)	\$ -	\$ (211,476)
Public Safety	226,185	39,142	29,735	-	(157,308)	-	(157,308)
Public Works	359,430	-	-	576,637	217,207	-	217,207
Culture and Recreation	197,924	61,315	500	-	(136,109)	-	(136,109)
Community Development	6,638	-	10,500	-	3,862	-	3,862
Airport	202,165	41,158	40,678	15,209	(105,120)	-	(105,120)
Interest and Fees	35,228	-	-	-	(35,228)	-	(35,228)
Total Governmental Activities	<u>1,246,518</u>	<u>149,087</u>	<u>81,413</u>	<u>591,846</u>	<u>(424,172)</u>	<u>-</u>	<u>(424,172)</u>
Business-type Activities:							
Water	257,333	268,998	-	-	-	11,665	11,665
Sewer	78,253	140,490	-	-	-	62,237	62,237
Gas Distribution	473,557	545,779	-	-	-	72,222	72,222
EDA	5,811	3,017	-	-	-	(2,794)	(2,794)
Total Business-type Activities	<u>814,954</u>	<u>958,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,330</u>	<u>143,330</u>
Total Primary Government	<u>\$ 2,061,472</u>	<u>\$ 1,107,371</u>	<u>\$ 81,413</u>	<u>\$ 591,846</u>	<u>(424,172)</u>	<u>143,330</u>	<u>(280,842)</u>
General Revenues:							
Property Taxes					478,422	-	478,422
Unrestricted State Aid					454,320	-	454,320
Other Revenues					85,266	-	85,266
Unrestricted Investment Earnings					41,623	1,348	42,971
Gain on the Sale of Capital Asset					1,000	-	1,000
Total General Revenues					<u>1,060,631</u>	<u>1,348</u>	<u>1,061,979</u>
Change in Net Position					<u>636,459</u>	<u>144,678</u>	<u>781,137</u>
Net Position - Beginning					<u>7,436,458</u>	<u>2,403,123</u>	<u>9,839,581</u>
Net Position - Ending					<u>\$ 8,072,917</u>	<u>\$ 2,547,801</u>	<u>\$ 10,620,718</u>

See Notes to the Financial Statements

CITY OF HALLOCK
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	<u>General</u>	<u>2011 Street & Utility</u>	<u>2015 Refunding Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 687,705	\$ 134,210	\$ 265,617	\$ 98,703	\$ 1,186,235
Prepaid Insurance	36,204	-	-	-	36,204
Taxes Receivable	11,000	6,800	7,000	2,200	27,000
Special Assessments Receivable	-	76,964	262,402	-	339,366
Due from Other Governments	229,500	-	-	-	229,500
TOTAL ASSETS	<u>\$ 964,409</u>	<u>\$ 217,974</u>	<u>\$ 535,019</u>	<u>\$ 100,903</u>	<u>\$ 1,818,305</u>
LIABILITIES					
Accounts Payable	\$ 68,467	\$ -	\$ -	\$ 25,553	\$ 94,020
Accrued Wages	3,019	-	-	-	3,019
Unearned Revenue	50,325	-	-	-	50,325
Total Liabilities	<u>121,811</u>	<u>-</u>	<u>-</u>	<u>25,553</u>	<u>147,364</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Special					
Assessments and Taxes	11,000	83,764	269,402	2,200	366,366
Total Deferred Inflows of Resources	<u>11,000</u>	<u>83,764</u>	<u>269,402</u>	<u>2,200</u>	<u>366,366</u>
FUND BALANCES					
Nonspendable	36,204	-	-	-	36,204
Restricted for Debt Service	-	134,210	265,617	44,434	444,261
Restricted for Small Cities Grant	-	-	-	43,198	43,198
Committed for Commercial Apron Extension	2,650	-	-	-	2,650
Assigned for Library	49,328	-	-	-	49,328
Assigned for Street Supplies and Maintenance	103,486	-	-	-	103,486
Assigned for Downtown Development	1,890	-	-	-	1,890
Unassigned	638,040	-	-	(14,482)	623,558
Total Fund Balances	<u>831,598</u>	<u>134,210</u>	<u>265,617</u>	<u>73,150</u>	<u>1,304,575</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 964,409</u>	<u>\$ 217,974</u>	<u>\$ 535,019</u>	<u>\$ 100,903</u>	<u>\$ 1,818,305</u>

See Notes to the Financial Statements

CITY OF HALLOCK
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION –
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2021

Total Governmental Funds Balance \$ 1,304,575

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.

Capital Assets	14,438,153	
Accumulated Depreciation	<u>(6,315,986)</u>	8,122,167

Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the governmental funds.

Special Assessments and Property Taxes		366,366
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Net deferred outflows/(inflows) of resources relating to the cost sharing defined benefit plan in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.

Deferred Outflows of Resources	147,660	
Deferred Inflows of Resources	<u>(205,712)</u>	(58,052)

Long-term liabilities not due and payable in the current period and therefore are not included in the governmental funds:

Bonds Payable, Net	(1,496,977)	
Net Pension Liability	(134,258)	
Compensated Absences	(17,598)	
Interest Payable	<u>(13,306)</u>	<u>(1,662,139)</u>

Net Position of Governmental Activities \$ 8,072,917

CITY OF HALLOCK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>General</u>	<u>2011 Street & Utility</u>	<u>2015 Refunding Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property Taxes	\$ 188,986	\$ 121,974	\$ 116,471	\$ 48,090	\$ 475,521
Special Assessments	-	51,381	53,011	-	104,392
Intergovernmental Revenue - Federal	47,802	-	-	-	47,802
Intergovernmental Revenue - State	1,071,587	-	-	-	1,071,587
Intergovernmental Revenue - Local	10,500	-	-	-	10,500
Charges for Services	146,210	-	-	-	146,210
Interest Earnings	18,307	-	-	-	18,307
Other Revenue	87,270	39	-	1,332	88,641
Total Revenues	<u>1,570,662</u>	<u>173,394</u>	<u>169,482</u>	<u>49,422</u>	<u>1,962,960</u>
EXPENDITURES					
Current:					
General Government	204,660	-	-	-	204,660
Public Safety	184,898	-	-	-	184,898
Public Works	229,314	-	-	-	229,314
Culture and Recreation	186,114	-	-	-	186,114
Community Development	3,530	-	-	28,662	32,192
Airport	49,804	-	-	-	49,804
Capital Outlay	657,466	-	-	-	657,466
Debt Service					
Principal Retirement	-	155,000	140,000	35,000	330,000
Interest and Fees	-	13,811	22,013	5,317	41,141
Total Expenditures	<u>1,515,786</u>	<u>168,811</u>	<u>162,013</u>	<u>68,979</u>	<u>1,915,589</u>
Excess of Revenues Over (Under)					
Expenditures	<u>54,876</u>	<u>4,583</u>	<u>7,469</u>	<u>(19,557)</u>	<u>47,371</u>
Other Financing Sources					
Sale of Capital Assets	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Total Other Financing Sources	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Net Change in Fund Balance	55,876	4,583	7,469	(19,557)	48,371
Fund Balances - Beginning	<u>775,722</u>	<u>129,627</u>	<u>258,148</u>	<u>92,707</u>	<u>1,256,204</u>
Fund Balances - Ending	<u>\$ 831,598</u>	<u>\$ 134,210</u>	<u>\$ 265,617</u>	<u>\$ 73,150</u>	<u>\$ 1,304,575</u>

See Notes to the Financial Statements

CITY OF HALLOCK
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

Net Change in Fund Balance - Total Governmental Funds \$ 48,371

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	652,122
Current Year Depreciation	(354,131)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Special Assessments and Property Taxes	(80,988)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 330,000

Amortize Bond Premium	1,997
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Change in net pension liability	55,991
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Change in deferred outflows and inflows of resources related to the net pension liability	(20,668)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated Absences	344
Interest Payable	3,421
	3,765

Changes in Net Position	\$ 636,459
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See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2021

	Business-type Activities - Enterprise Funds				
	Water	Sewer	Gas Distribution	EDA	Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 160,258	\$ 352,671	\$ 1,286,693	\$ -	\$ 1,799,622
Accounts Receivable (Net of Allowance for Uncollectibles)	27,220	18,905	82,937	-	129,062
Inventories	21,890	3,702	20,171	-	45,763
Note Receivable - Current Portion	-	-	-	10,762	10,762
Due from Other Funds	-	-	33,379	-	33,379
Prepaid Insurance	3,841	3,187	3,977	-	11,005
Total Current Assets	<u>213,209</u>	<u>378,465</u>	<u>1,427,157</u>	<u>10,762</u>	<u>2,029,593</u>
Non-current Assets:					
Note Receivable (Net of Allowance)	-	-	-	44,578	44,578
Capital Assets:					
Land	2,142	33,490	47,788	-	83,420
Plant and Equipment	2,011,558	1,867,632	855,679	25,926	4,760,795
Less Accumulated Depreciation	(1,434,012)	(1,236,421)	(698,886)	(25,926)	(3,395,245)
Total Capital Assets (Net of Accumulated Depreciation)	<u>579,688</u>	<u>664,701</u>	<u>204,581</u>	<u>-</u>	<u>1,448,970</u>
Total Non-current Assets	<u>579,688</u>	<u>664,701</u>	<u>204,581</u>	<u>44,578</u>	<u>1,493,548</u>
Total Assets	<u>792,897</u>	<u>1,043,166</u>	<u>1,631,738</u>	<u>55,340</u>	<u>3,523,141</u>
DEFERRED OUTFLOWS OF RESOURCES					
Cost Sharing Defined Benefit Pension Plan	5,017	5,017	42,643	-	52,677
Total Deferred Outflows of Resources	<u>5,017</u>	<u>5,017</u>	<u>42,643</u>	<u>-</u>	<u>52,677</u>
LIABILITIES					
Current Liabilities:					
Accounts Payable	10,434	1,097	47,470	-	59,001
Accrued Wages	525	501	3,857	-	4,883
Sales Tax Payable	-	-	7,318	-	7,318
Unearned Revenue	-	-	22,411	-	22,411
Accrued Interest Payable	2,879	1,744	-	-	4,623
Meter Deposits Payable	-	-	8,365	-	8,365
Due to Other Funds	-	-	-	33,379	33,379
Accrued Compensated Absences - Current Portion	359	342	2,512	-	3,213
Bonds Payable - Current Portion	45,000	25,000	-	-	70,000
Total Current Liabilities	<u>59,197</u>	<u>28,684</u>	<u>91,933</u>	<u>33,379</u>	<u>213,193</u>
Non-current Liabilities:					
Accrued Compensated Absences (Net of Current)	2,030	1,933	15,309	-	19,272
Net Pension Liability	6,491	6,490	55,174	-	68,155
Bonds Payable (Net of Current)	275,000	379,000	-	-	654,000
Total Non-current Liabilities	<u>283,521</u>	<u>387,423</u>	<u>70,483</u>	<u>-</u>	<u>741,427</u>
Total Liabilities	<u>342,718</u>	<u>416,107</u>	<u>162,416</u>	<u>33,379</u>	<u>954,620</u>
DEFERRED INFLOWS OF RESOURCES					
Cost Sharing Defined Benefit Pension Plan	6,990	6,990	59,417	-	73,397
Total Deferred Inflows of Resources	<u>6,990</u>	<u>6,990</u>	<u>59,417</u>	<u>-</u>	<u>73,397</u>
NET POSITION					
Net Investment in Capital Assets	259,688	260,701	204,581	-	724,970
Restricted for Revolving Loan Funds	-	-	-	23,596	23,596
Unrestricted	188,518	364,385	1,247,967	(1,635)	1,799,235
Total Net Position	<u>\$ 448,206</u>	<u>\$ 625,086</u>	<u>\$ 1,452,548</u>	<u>\$ 21,961</u>	<u>\$ 2,547,801</u>

See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Business-type Activities - Enterprise Funds				
	Gas				Total
	Water	Sewer	Distribution	EDA	
Operating Revenues:					
Water Sales	\$ 268,998	\$ -	\$ -	\$ -	\$ 268,998
Sewer Charges	-	140,490	-	-	140,490
Gas Sales	-	-	545,779	-	545,779
Other	-	-	-	3,017	3,017
Total Operating Revenues	<u>268,998</u>	<u>140,490</u>	<u>545,779</u>	<u>3,017</u>	<u>958,284</u>
Operating Expenses:					
Production:					
Purchases	117,362	-	279,362	-	396,724
Repairs and Maintenance	10,088	1,455	1,284	-	12,827
Economic Development	-	-	-	5,000	5,000
Supplies and small tools	5,781	5,396	11,373	-	22,550
Depreciation	66,732	39,725	15,499	-	121,956
Total	<u>199,963</u>	<u>46,576</u>	<u>307,518</u>	<u>5,000</u>	<u>559,057</u>
Distribution:					
Labor	15,086	14,949	102,827	-	132,862
Utilities	14,645	5,768	5,846	-	26,259
Total	<u>29,731</u>	<u>20,717</u>	<u>108,673</u>	<u>-</u>	<u>159,121</u>
Administration:					
Payroll Benefits	228	2,788	41,262	-	44,278
Insurance	3,071	1,198	3,722	-	7,991
Telephone	330	-	-	-	330
Office Supplies	300	-	8,890	811	10,001
Training and Travel	77	50	81	-	208
Professional Fees	16,198	2,588	3,411	-	22,197
Total	<u>20,204</u>	<u>6,624</u>	<u>57,366</u>	<u>811</u>	<u>85,005</u>
Total Operating Expenses	<u>249,898</u>	<u>73,917</u>	<u>473,557</u>	<u>5,811</u>	<u>803,183</u>
Operating Income (Loss)	<u>19,100</u>	<u>66,573</u>	<u>72,222</u>	<u>(2,794)</u>	<u>155,101</u>
Non-Operating Revenues (Expenses):					
Interest Income	-	-	370	978	1,348
Interest Expense	(7,435)	(4,336)	-	-	(11,771)
Total Non-Operating Revenue (Expenses)	<u>(7,435)</u>	<u>(4,336)</u>	<u>370</u>	<u>978</u>	<u>(10,423)</u>
Changes in Net Position	11,665	62,237	72,592	(1,816)	144,678
Total Net Position - Beginning	<u>436,541</u>	<u>562,849</u>	<u>1,379,956</u>	<u>23,777</u>	<u>2,403,123</u>
Total Net Position - Ending	<u>\$ 448,206</u>	<u>\$ 625,086</u>	<u>\$ 1,452,548</u>	<u>\$ 21,961</u>	<u>\$ 2,547,801</u>

See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

Business-type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Gas Distribution</u>	<u>EDA</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 275,276	\$ 138,772	\$ 558,304	\$ 18,005	\$ 990,357
Payments for Economic Development	-	-	-	(5,000)	(5,000)
Payments to Suppliers	(168,267)	(16,733)	(298,835)	(811)	(484,646)
Payments to Employees	(22,176)	(22,860)	(145,396)	-	(190,432)
Net Cash Provided by Operating Activities	<u>84,833</u>	<u>99,179</u>	<u>114,073</u>	<u>12,194</u>	<u>310,279</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Change in Due To/From Other Funds	-	-	447,326	(13,172)	434,154
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>447,326</u>	<u>(13,172)</u>	<u>434,154</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal Payment on Bonds Payable	(45,000)	(25,000)	-	-	(70,000)
Interest Paid on Bonds Payable	(7,810)	(4,445)	-	-	(12,255)
Net Cash Used by Capital and Related Financing Activities	<u>(52,810)</u>	<u>(29,445)</u>	<u>-</u>	<u>-</u>	<u>(82,255)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Income	-	-	370	978	1,348
Net Cash Provided by Investing Activities	<u>-</u>	<u>-</u>	<u>370</u>	<u>978</u>	<u>1,348</u>
Net Increase in Cash and Cash Equivalents	32,023	69,734	561,769	-	663,526
Cash and Cash Equivalents, January 1	128,235	282,937	724,924	-	1,136,096
Cash and Cash Equivalents, December 31	<u>\$ 160,258</u>	<u>\$ 352,671</u>	<u>\$ 1,286,693</u>	<u>\$ -</u>	<u>\$ 1,799,622</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 19,100	\$ 66,573	\$ 72,222	\$ (2,794)	\$ 155,101
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation Expense	66,732	39,725	15,499	-	121,956
Changes in Assets and Liabilities:					
Utility Billings Receivable	6,278	(1,718)	(10,286)	-	(5,726)
Inventory	(1,474)	57	(286)	-	(1,703)
Prepaid Insurance	(80)	(92)	(161)	-	(333)
Notes Receivable	-	-	-	14,988	14,988
Deferred Pension Outflows	(4,484)	(4,484)	(27,688)	-	(36,656)
Accounts Payable	1,139	(243)	14,541	-	15,437
Accrued Wages	525	501	1,151	-	2,177
Sales Tax Payable	-	-	1,040	-	1,040
Unearned Revenue	-	-	22,411	-	22,411
Net Pension Liability	(1,903)	(1,903)	(16,172)	-	(19,978)
Deferred Pension Inflows	(1,933)	(128)	40,350	-	38,289
Compensated Absences	933	891	1,052	-	2,876
Meter Deposits Payable	-	-	400	-	400
Net Cash Provided by Operating Activities	<u>\$ 84,833</u>	<u>\$ 99,179</u>	<u>\$ 114,073</u>	<u>\$ 12,194</u>	<u>\$ 310,279</u>

See Notes to the Financial Statements

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hallock operates under a City Council form of government. The financial statements of the City of Hallock have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City's policy is to include all funds, organizations, institutions, agencies, departments, and offices over which the Council exercises significant influence over and/or is financially accountable, or the organizations for which the nature and significance of their relationships with the City is such that exclusion would cause the City's financial statements to be misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, or is fiscally dependent upon the potential component unit.

Based on these criteria, the Hallock Economic Development Authority has been included in the City's financial statements as a blended component unit.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, as appropriate. The City has the following funds:

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

1) Governmental Fund Types

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets, deferred inflows of resources, and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

- a) General Fund — The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important activities of the City, including operation of the City's general service departments such as public safety, are accounted for in this fund.
- b) 2011 Street & Utility Debt Service Fund — This fund accounts for receipt of property taxes and special assessments used for the payment of bond principal, interest and fees.
- c) 2015 Refunding Bond – This fund accounts for receipt of property taxes and special assessments used for the payment of bond principal, interest and fees.

The other governmental funds of the City are considered nonmajor.

2) Proprietary Fund Types

Proprietary fund types are used to account for a government's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

Enterprise funds are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services, which are supported primarily by user charges. The following comprise the City's major enterprise funds:

- a) Water Fund — To account for the operation and maintenance of the City's Water Utility.
- b) Sewer System Fund — To account for the operation and maintenance of the City's Sanitary Sewer System.
- c) Gas Distribution Fund — To account for the operation and maintenance of the City's Gas Utility.
- d) EDA Fund — This fund does not meet criteria to be a major fund, however, management has elected to report it as a major fund. The fund accounts for the operation of the City's Economic Development Authority.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Governmental Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria is met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. Property taxes are considered available if received within 60 days of year-end.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Budgets

The City submits a proposed budget and levy to the County Auditor's office by September 15. The Truth in Taxation public hearings are held in December. The City must prepare a final budget and certify the levy to the County by December 31. A copy of the final budget and prior year revenue and expenditures must be submitted to the State Auditor's office.

F. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with original maturities of three months or less.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

G. Capital Assets

Capital assets, including land, buildings, improvements, infrastructure, and equipment assets are reported in the applicable governmental or business - type activities columns in the government-wide financial statements. Capital assets are defined by the City of Hallock as assets with an initial, individual cost of more than \$2,500 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, improvements, infrastructure and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<i>Estimated useful lives using straight-line depreciation:</i>	
Buildings	20-60 Years
Plant and Equipment	10-50 Years
Infrastructure	40 Years

The City's collection of library books and other similar assets are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to City policy that requires proceeds from the sale of these items to be used to acquire other collection items.

H. Investments

Investments are carried at fair value. The City considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable market inputs that are not corroborated by market data.

I. Taxes and Special Assessments Receivable

Property tax levies are set by the City Council in October each year and are certified to the county for collection the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1.

Property taxes are payable in equal installments by property owners to the county as follows: Personal Property - February 28 and June 30; and Real Property - May 15 and October 15.

The county remits the collections to the City and other taxing districts three times a year, in January, July and December.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable. The receivable is fully offset by deferred revenue as it is not available to finance current expenditures.

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

Special assessments receivable includes the following components:

Unremitted - Amounts collected by Kittson County and not remitted to the City.

Delinquent - Amounts billed to property owners but not paid.

Deferred - Assessment installments which will be billed to property owners in future years.

J. Utility Billings Receivable

Utility billings receivables are carried at the original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Utility billings receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A utility billing receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. The provision for uncollectible accounts was \$31,401 as of December 31, 2021.

K. Inventories

Inventories are stated at the lower of cost or market and consist of consumable supplies. The cost of these supplies is recorded as an expense at the time they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in, first-out basis.

L. Interfund Transactions

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Non-current portions of long-term interfund loan receivables are reported as advances within the Governmental Funds and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources, and therefore, are not available for appropriation.

M. Accounts Payable

Accounts payable consists of amounts on open accounts owing to individuals, companies, or organizations for goods and services received prior to December 31, but paid for subsequent to that date.

N. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Compensated Absences

City employees accumulate vacation leave hours for subsequent use or for payment upon termination, death or retirement. Vacation leave is payable when used, or upon death or retirement. If paid upon death or retirement, the total accumulated hours are paid at the then effective hourly rate for that employee, with a maximum of 30 days per employee. Employees are also allowed to accumulate up to 120 days of sick leave with 42 percent of those days vested after 15 years of employment.

For Proprietary Fund types, these accumulations are recorded as expenses and liabilities of the appropriate fund in the fiscal year earned. For Governmental Fund types, the amount of accumulated unpaid vacation and sick leave, which is payable from available resources, is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The City has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measure date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category, one of which arises only under a modified accrual basis of accounting. Accordingly, the item, *unearned revenue – special assessments and taxes* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, special assessments and taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

available. The City also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the PERA pension plan.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. Fund Balance

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in spendable form, such as inventory and prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by law through constitutional provisions or enabling legislation.

Committed – consists of internally imposed constraints. These constraints are established by formal action of the City Council.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council. Pursuant to Council resolution, the City's Clerk-Treasurer is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

S. Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

T. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

NOTE 2. DEPOSITS

Credit Risk

The City may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

Custodial Credit Risk – Deposits

The City does not have a formal custodial credit risk policy. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. The City was not exposed to custodial risk as of December 31, 2021.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

Interest income on cash and investments was \$19,654 for the year ended December 31, 2021.

NOTE 3. NOTES RECEIVABLE

The City has notes receivable from various businesses and organizations at December 31, 2021, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Economic Development Loans			
Regular Loans	2023-2028	1.0 - 2.0%	\$ 55,340
Deferred Loans	2022-2026	0%	<u>13,658</u> *
			<u>\$ 68,998</u>

* Deferred loans, of which 20% is forgivable each year for five years. If all conditions are satisfied under the terms and conditions of the lending agreement, the money shall become the sole property of the organization.

The provision for uncollectible was \$13,658.

NOTE 4. INTERFUND RECEIVABLES AND PAYABLES

The City had the following due to/from other funds at December 31, 2021:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Gas Distribution Fund	EDA Fund	\$ 33,379

The amount between the Gas Distribution Fund and the EDA fund is to finance the operation of the fund and approximately \$10,000 of the loan from the Gas Distribution fund to the EDA fund is expected to be collected after 2021.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

NOTE 5. CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended December 31, 2021:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Non-Depreciable:				
Land	\$ 607,376	\$ -	\$ -	\$ 607,376
Construction in Progress	<u>2,258,574</u>	<u>593,757</u>	<u>413,510</u>	<u>2,438,821</u>
Total	<u>2,865,950</u>	<u>593,757</u>	<u>413,510</u>	<u>3,046,197</u>
Capital Assets, Depreciable:				
Buildings	3,023,587	-	-	3,023,587
Equipment	2,308,413	42,337	-	2,350,750
Infrastructure	<u>5,588,081</u>	<u>429,538</u>	<u>-</u>	<u>6,017,619</u>
Total	<u>10,920,081</u>	<u>471,875</u>	<u>-</u>	<u>11,391,956</u>
Less Accumulated Depreciation for:				
Buildings	(1,057,376)	(101,268)	-	(1,158,644)
Equipment	(1,194,747)	(101,552)	-	(1,296,299)
Infrastructure	<u>(3,709,732)</u>	<u>(151,311)</u>	<u>-</u>	<u>(3,861,043)</u>
Total Accumulated Depreciation	<u>(5,961,855)</u>	<u>(354,131)</u>	<u>-</u>	<u>(6,315,986)</u>
Total Capital Assets, Depreciable, Net	<u>4,958,226</u>	<u>117,744</u>	<u>-</u>	<u>5,075,970</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,824,176</u>	<u>\$ 711,501</u>	<u>\$ 413,510</u>	<u>\$ 8,122,167</u>

Depreciation expense was charged to government functions as follows:

General Government	\$ 17,210
Public Safety	48,364
Public Works	129,623
Culture and Recreation	11,810
Airport	<u>147,124</u>
	<u>\$ 354,131</u>

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Non-Depreciable:				
Land	\$ 83,420	\$ -	\$ -	\$ 83,420
Capital Assets, Depreciable:				
Plant and Equipment	4,760,795	-	-	4,760,795
Total	4,760,795	-	-	4,760,795
Less Accumulated Depreciation for:				
Plant and Equipment	(3,273,289)	(121,956)	-	(3,395,245)
Total Accumulated Depreciation	(3,273,289)	(121,956)	-	(3,395,245)
Total Capital Assets, Depreciable, Net	1,487,506	(121,956)	-	1,365,550
Business-Type Activities Capital Assets, Net	<u>\$ 1,570,926</u>	<u>\$ (121,956)</u>	<u>\$ -</u>	<u>\$ 1,448,970</u>

Depreciation expense was charged to business-type funds as follows:

Water Fund	\$ 66,732
Sewer Fund	39,725
Gas Distribution Fund	<u>15,499</u>
	<u>\$ 121,956</u>

NOTE 6. LONG-TERM DEBT

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years was \$3,532,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The general obligations issued for General Government are payable from the debt service funds primarily through special assessments and property taxes levied and collected. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.3 – 2.5%	\$ 223,000
Governmental Activities – Refunding	2.0 – 3.2%	1,260,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 355,000	\$ 31,935
2023	311,000	23,715
2024	242,000	16,926
2025	188,000	11,875
2026	153,000	7,913
2027-2028	234,000	4,959
	<u>\$1,483,000</u>	<u>\$ 97,323</u>

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

General Obligation Revenue Bonds. The City issues general obligation revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation revenue bonds have been issued for business-type activities. The original amount of general obligation bonds issued in prior years was \$956,338.

The City pledges income derived from the acquired or constructed assets to pay debt service. General obligation revenue bonds are direct obligations and pledge the full faith and credit of the City. General obligation revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	1.0%	\$ 404,000
Business-type Activities - Refunding	2.0 – 2.8%	320,000

Annual debt service requirements to maturity for general obligation utility revenue bonds are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 70,000	\$ 11,095
2023	70,000	9,936
2024	66,000	8,807
2025	71,000	7,623
2026	71,000	6,319
2027-2031	234,000	14,241
2032-2036	142,000	4,444
	<u>\$ 724,000</u>	<u>\$ 62,465</u>

The City has pledged \$348,175 and \$438,292 of future water and sewer revenue, respectively, for water and sewer upgrades. The Water and Sewer Funds had net income, excluding depreciation and interest expense of \$92,332 and \$106,298 respectively, that exceeded the annual payments from the pledged revenue for debt of \$52,810 and \$29,445, respectively.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2021, was as follows:

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2021</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
2011 G.O. Refunding Bonds	\$ 515,000	\$ -	\$ (155,000)	\$ 360,000	\$ 170,000
2015 G.O. Refunding Bonds	1,040,000	-	(140,000)	900,000	150,000
2015 G.O. Premium	15,974	-	(1,997)	13,977	1,997
2016 G.O. Capital Improvement Bond	258,000	-	(35,000)	223,000	35,000
Compensated Absences	17,942	1,087	(1,431)	17,598	2,166
Governmental Activities Total	<u>\$ 1,846,916</u>	<u>\$ 1,087</u>	<u>\$ (333,428)</u>	<u>\$ 1,514,575</u>	<u>\$ 359,163</u>
Business-Type Activities:					
2015 G.O. Refunding Bonds	\$ 365,000	\$ -	\$ (45,000)	\$ 320,000	\$ 45,000
2016 G.O. Sewer Revenue Bond	429,000	-	(25,000)	404,000	25,000
Compensated Absences	19,609	4,734	(1,858)	22,485	3,213
Business-Type Activities Total	<u>\$ 813,609</u>	<u>\$ 4,734</u>	<u>\$ (71,858)</u>	<u>\$ 746,485</u>	<u>\$ 73,213</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

NOTE 7. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City of Hallock carries commercial insurance for all other risks of loss, including employees' health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9. DEFINED BENEFIT PENSION PLANS

The financial statements of the City of Hallock have been prepared in accordance with accounting principles generally accepted in the United States of America as described in Note 1. This note disclosure includes the proportionate share of the net pension liability, deferred inflows of resources, and deferred outflows of resources for both governmental and proprietary funds.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Plan Description – The City participates in the following cost-sharing multi-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of June 30 before the effective date of the increase will receive a reduced prorated increase.

Contributions – *Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2021 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2021, were \$21,007. The City's contributions were equal to the required contributions for each year as set by state statute.

Police and Fire Fund Contributions

Police and Fire members were required to contribute 11.8% of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.7% for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2021, were \$10,842. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2021, the City reported a liability of \$162,275 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$5,062. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0038% at the end of the measurement period and 0.0035% for the beginning of the period.

City's proportionate share of the net pension liability	\$	162,275
State of Minnesota's proportionate share of the net pension liability associated with the City		5,062
Total	\$	167,337

For the year ended December 31, 2021, the City recognized pension expense of (\$19,750) for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$408 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

At December 31, 2021, the City reported its proportionate share of General Employees Plan deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 997	\$ 4,922
Difference between projected and actual investment earnings	-	142,884
Changes in actuarial assumptions	99,084	3,395
Changes in proportion	13,683	23,557
Contributions paid to PERA subsequent to the measurement date	11,656	-
Total	<u>\$ 125,420</u>	<u>\$ 174,758</u>

\$11,656 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2022	\$ (22,556)
2023	(2,970)
2024	2,863
2025	(38,331)

At December 31, 2021, the City reported a liability of \$40,138 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0052% at the end of the measurement period and 0.0052% for the beginning of the period.

The State of Minnesota also contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million in direct state was paid on October 1, 2020. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

For the year ended December 31, 2021, the City recognized pension expense of (\$1,196) for its proportionate share of the Police and Fire Plan's pension expense. In addition, the City recognized pension expense of \$333 as grant revenue for its proportionate share of the State of Minnesota's pension expense contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$468 for the year ended December 31, 2021 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

At December 31, 2021, the City reported its proportionate share of Police and Fire Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 7,718	\$ -
Difference between projected and actual investment earnings	-	76,675
Changes in actuarial assumptions	58,995	21,318
Changes in proportion	3,769	6,358
Contributions paid to PERA subsequent to the measurement date	4,435	-
Total	<u>\$ 74,917</u>	<u>\$ 104,351</u>

\$4,435 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2022	\$ (28,568)
2023	(4,397)
2024	(5,026)
2025	(8,789)
2026	12,911

Long-Term Expected Return on Investment – The State Board of Investments, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

Actuarial Methods and Assumptions – The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MP-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

Discount Rate – The discount rate used to measure the total pension liability in 2021 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity – The following presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (5.5%)	Current (6.5%)	1% Increase (7.5%)
General Employees Fund	\$ 330,962	\$ 162,275	\$ 23,860
Police and Fire Fund	127,433	40,138	(31,421)

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

The City recognized total pension expense of (\$20,946) for all of the pension plans in which it participates.

NOTE 10. PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN

Five council members of the City of Hallock are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent (0.0025) of the assets in each member's account annually.

Total contributions made by the City of Hallock during fiscal year 2021 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$166	\$166	5.0%	5.0%	5.0%

NOTE 11. TAX INCREMENT REDEVELOPMENT

The City of Hallock entered into one Tax Increment District to redevelop the downtown section of the City of Hallock. The district is as follows:

District C- Site preparation for construction of a new motel building.

Tax Increment District was set up to finance the purchase, demolition and site preparation of the buildings. Over a determined life of the District, all increases in property tax receipts resulting from increased market value will be sent to the City to offset initial costs. The determined time for repayment of the recapturable costs is fifteen years.

NOTE 12. COMMITMENTS

In March of 2009, the City committed 33% of four historical volumes to a Managed Procurement Fund (MPF) for a five-year period, although it can be reviewed annually. The City typically enters into a procurement arrangement in March for 33% of projected natural gas needs for the winter months, at a specified rate per MCF. The final one-third of expected natural gas needs is then left to the open market. However, as of December 31, 2021, the City had not entered into any procurement arrangements in addition to the MPF.

The City has a construction commitment of approximately \$85,000 for the Two Rivers Fishway project.

NOTE 13. NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This

CITY OF HALLOCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

Management has not yet determined what effect these statements will have on the City's financial statements.

CITY OF HALLOCK
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2021

REVENUES	Budgeted Amounts	Actual	Variance with
	Original & Final	Amounts	Budget
	<u> </u>	<u> </u>	<u> </u>
Taxes:			
Property	\$ 193,669	\$ 188,986	\$ (4,683)
Intergovernmental Revenue:			
Federal			
Airport	-	44,212	44,212
Public Safety	-	3,590	3,590
State Grants:			
Local Government	407,533	407,533	-
Police Aid	10,800	9,192	(1,608)
Fire Aid	-	26,145	26,145
PERA	1,391	-	(1,391)
Airport	12,000	11,675	(325)
Department of Natural Resources	-	579,447	579,447
Other	900	37,595	36,695
Local Grants	-	10,500	10,500
Total Intergovernmental	<u>432,624</u>	<u>1,129,889</u>	<u>697,265</u>
Charges for Services:			
Licenses	6,100	3,530	(2,570)
Fines, Forfeits and Penalties	400	210	(190)
Fire Department	41,000	38,932	(2,068)
Rents	36,900	42,783	5,883
Camping Fees	28,000	23,233	(4,767)
Swimming Pool	20,000	23,615	3,615
Miscellaneous	12,000	13,907	1,907
Total Charges for Services	<u>144,400</u>	<u>146,210</u>	<u>1,810</u>
Other Revenues:			
Interest	23,000	18,307	(4,693)
Donations	200	12,636	12,436
Refunds and Reimbursement	29,000	38,550	9,550
Miscellaneous	5,100	36,084	30,984
Total Other Revenue	<u>57,300</u>	<u>105,577</u>	<u>48,277</u>
Total Revenues	<u>827,993</u>	<u>1,570,662</u>	<u>742,669</u>
EXPENDITURES			
General Government:			
Current			
City Council	10,200	11,100	(900)
City Administrator	96,350	114,088	(17,738)
Other	271,581	79,472	192,109
Capital Outlay	-	594,415	(594,415)
Total General Government	<u>378,131</u>	<u>799,075</u>	<u>(420,944)</u>

See Notes to the Required Supplementary Information

CITY OF HALLOCK
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

EXPENDITURES - Continued	Budgeted Amounts	Actual	Variance with
	Original & Final	Amounts	Budget
Public Safety:			
Current			
Police Protection	\$ 84,450	\$ 84,090	\$ 360
Fire Protection	64,200	91,248	(27,048)
Other	-	9,560	(9,560)
Capital Outlay			
Fire Protection	5,800	39,498	(33,698)
Total Public Safety	<u>154,450</u>	<u>224,396</u>	<u>(69,946)</u>
Public Works:			
Current	215,150	229,314	(14,164)
Capital Outlay	-	2,295	(2,295)
Total Public Works	<u>215,150</u>	<u>231,609</u>	<u>(16,459)</u>
Culture and Recreation:			
Current- Parks	88,400	123,660	(35,260)
Current- Library	-	20,177	(20,177)
Current- Arena	-	42,277	(42,277)
Total Culture and Recreation	<u>88,400</u>	<u>186,114</u>	<u>(97,714)</u>
Community Development			
Current	-	3,530	(3,530)
Total Community Development	<u>-</u>	<u>3,530</u>	<u>(3,530)</u>
Airport:			
Current	21,800	49,804	(28,004)
Capital Outlay	20,000	21,258	(1,258)
Total Airport	<u>41,800</u>	<u>71,062</u>	<u>(29,262)</u>
Total Expenditures	<u>877,931</u>	<u>1,515,786</u>	<u>(637,855)</u>
REVENUES UNDER EXPENDITURES	<u>(49,938)</u>	<u>54,876</u>	<u>104,814</u>
OTHER FINANCING SOURCES			
Transfer In	50,000	-	(50,000)
Sale of Capital Asset	-	1,000	1,000
Total Other Financing Sources	<u>50,000</u>	<u>1,000</u>	<u>(49,000)</u>
NET CHANGE IN FUND BALANCE	62	55,876	55,814
FUND BALANCE, JANUARY 1	<u>775,722</u>	<u>775,722</u>	<u>-</u>
FUND BALANCE, DECEMBER 31	<u>\$ 775,784</u>	<u>\$ 831,598</u>	<u>\$ 55,814</u>

See Notes to the Required Supplementary Information

CITY OF HALLOCK
SCHEDULE OF CITY CONTRIBUTIONS
AS OF DECEMBER 31, 2021

Pension Plan	Fiscal Year Ended December 31	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a % of Covered Payroll
General Employees Fund	2015	\$ 22,983	\$ 22,983	\$ -	\$ 306,512	7.50%
	2016	23,399	23,399	-	311,990	7.50%
	2017	21,843	21,843	-	291,239	7.50%
	2018	22,983	22,983	-	306,511	7.50%
	2019	19,131	19,131	-	237,464	8.06%
	2020	17,602	17,602	-	270,798	6.50%
	2021	21,007	21,007	-	280,131	7.50%
Police and Fire Fund	2015	\$ 9,070	\$ 9,070	\$ -	\$ 55,987	16.20%
	2016	8,407	8,407	-	51,897	16.20%
	2017	8,930	8,930	-	55,125	16.20%
	2018	9,069	9,069	-	55,987	16.20%
	2019	10,000	10,000	-	51,669	19.35%
	2020	10,643	10,643	-	60,130	17.70%
	2021	10,842	10,842	-	61,252	17.70%

The amounts presented for each fiscal year were determined as of the City's year end which is December 31.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015.

See Notes to the Required Supplementary Information

CITY OF HALLOCK
SCHEDULE OF CITY'S SHARE OF THE NET PENSION LIABILITY
AS OF DECEMBER 31, 2021

	Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary
								Net Position as a Percentage of the Total Pension Liability
General Employees Fund	2015	0.0050%	\$ 259,126	\$ -	\$ 259,126	\$ 293,806	88.2%	78.20%
	2016	0.0049%	397,856	5,234	403,090	305,440	130.3%	68.90%
	2017	0.0048%	306,429	3,833	310,262	301,615	101.6%	75.90%
	2018	0.0047%	260,737	8,457	269,194	298,875	87.2%	79.53%
	2019	0.0038%	210,093	6,500	216,593	271,988	77.2%	80.23%
	2020	0.0035%	209,841	6,457	216,298	254,131	82.6%	79.06%
	2021	0.0038%	162,275	5,062	167,337	275,465	58.9%	87.00%
Police and Fire Fund	2015	0.0060%	\$ 68,174	\$ -	\$ 68,174	\$ 54,938	124.1%	86.61%
	2016	0.0060%	240,790	-	240,790	54,074	445.3%	63.90%
	2017	0.0050%	67,506	-	67,506	53,511	126.2%	85.40%
	2018	0.0052%	55,427	-	55,427	55,556	99.8%	88.84%
	2019	0.0055%	58,553	-	58,553	53,828	108.8%	89.26%
	2020	0.0052%	68,542	-	68,542	55,900	122.6%	87.19%
	2021	0.0052%	40,138	1,827	41,965	60,691	66.1%	93.66%

The amounts presented for each fiscal year were determined as of the measurement date of the City's net pension liability which is June 30, of the previous fiscal year.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015.

See Notes to the Required Supplementary Information

CITY OF HALLOCK
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021

NOTE 1 BUDGETARY COMPARISON

Budgets are prepared for City funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the City.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The annual appropriated budget is not legally binding on the City unless the City has a deficit fund balance, which exceeds 2.5 percent of expenditures.

NOTE 2 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2021, expenditures exceeded appropriations in the general fund by \$637,855. The over expenditures were funded by greater than anticipated revenues.

NOTE 3 DEFINED BENEFIT PLANS

PERA

General Employees Fund

2021 Changes

Changes in Plan Provisions: There were no changes in plan provisions since the previous valuation.

Changes in Actuarial Assumptions: The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020

2020 Changes

Changes in Plan Provisions: Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

Changes in Actuarial Assumptions: The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled

CITY OF HALLOCK
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
DECEMBER 31, 2021

annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 Changes

Changes in Plan Provisions: The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2017 to MP-2018.

2018 Changes

Changes in Plan Provisions: The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 Changes

Changes in Plan Provisions: The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

Changes in Actuarial Assumptions: The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

CITY OF HALLOCK
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
DECEMBER 31, 2021

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions: On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, was due September 2015.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Police and Fire Fund

2021 Changes

Changes in Plan Provisions: There were no changes in plan provisions since the previous valuation.

Changes in Actuarial Assumptions: The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes. The inflation assumption was changed from 2.50 percent to 2.25 percent. The payroll growth assumption was changed from 3.25 percent to 3.00 percent. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MP-2020. The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020). Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates. Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements. Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations. Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities. Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

2020 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2018 to MP-2019.

CITY OF HALLOCK
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
DECEMBER 31, 2021

2019 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

Changes in Actuarial Assumptions: The morality projection scale was changed from MP-2017 to MP-2018.

2018 Changes

Changes in Plan Provisions: Postretirement benefit increases were changed to 1.00 percent for all years, with no trigger. An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier. Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020. Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Changes in Actuarial Assumptions: The morality projection scale was changed from MP-2016 to MP-2017.

2017 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

Changes in Actuarial Assumptions: Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

Changes in Actuarial Assumptions: The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter to 1.00 percent per year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount

CITY OF HALLOCK
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
DECEMBER 31, 2021

rate changed from 7.90 percent to 5.60 percent. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Plan Provisions: The postretirement benefit increases to be paid after the attainment of the 90.00 percent funding threshold was changed from inflation up to 2.50 percent, to a fixed rate of 2.50 percent

Changes in Actuarial Assumptions: The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

CITY OF HALLOCK
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>TIF - C Motel</u>	<u>Small Cities Grant</u>	<u>2016 GO Bond</u>	
ASSETS				
Cash and Cash Equivalents	\$ 25,553	\$ 28,716	\$ 44,434	\$ 98,703
Taxes Receivable	-	-	2,200	2,200
TOTAL ASSETS	<u>\$ 25,553</u>	<u>\$ 28,716</u>	<u>\$ 46,634</u>	<u>\$ 100,903</u>
LIABILITIES				
Accounts Payable	<u>\$ 25,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,553</u>
Total Liabilities	<u>25,553</u>	<u>-</u>	<u>-</u>	<u>25,553</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue				
Special Assessments and Taxes	-	-	2,200	2,200
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>2,200</u>	<u>2,200</u>
FUND BALANCES				
Restricted for Debt Service	-	-	44,434	44,434
Restricted for Small Cities Grant	-	43,198	-	43,198
Unassigned	-	(14,482)	-	(14,482)
Total Fund Balances	<u>-</u>	<u>28,716</u>	<u>44,434</u>	<u>73,150</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 25,553</u>	<u>\$ 28,716</u>	<u>\$ 46,634</u>	<u>\$ 100,903</u>

CITY OF HALLOCK
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>TIF - C</u>	<u>Small Cities</u>	<u>2016</u>	
	<u>Motel</u>	<u>Grant</u>	<u>GO Bond</u>	
REVENUES				
Property Taxes	\$ 7,081	\$ -	\$ 41,009	\$ 48,090
Other Revenue	-	1,332	-	1,332
Total Revenues	<u>7,081</u>	<u>1,332</u>	<u>41,009</u>	<u>49,422</u>
EXPENDITURES				
Current:				
Community Development	25,554	3,108	-	28,662
Debt Service	-	-	35,000	35,000
Interest and Fees	-	-	5,317	5,317
Total Expenditures	<u>25,554</u>	<u>3,108</u>	<u>40,317</u>	<u>68,979</u>
Net Change in Fund Balances	<u>(18,473)</u>	<u>(1,776)</u>	<u>692</u>	<u>(19,557)</u>
Fund Balances - Beginning	<u>18,473</u>	<u>30,492</u>	<u>43,742</u>	<u>92,707</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 28,716</u>	<u>\$ 44,434</u>	<u>\$ 73,150</u>

CITY OF HALLOCK
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021

	Beginning Balance	Revenues	Expenditures	Sale of Capital Asset	Ending Balance
Governmental Funds					
General	\$ 775,722	\$ 1,570,662	\$ 1,515,786	\$ 1,000	\$ 831,598
Special Revenue					
TIF - C Motel	18,473	7,081	25,554		-
Small Cities Grant	30,492	1,332	3,108		28,716
Debt Service					
2011 Street & Utility	129,627	173,394	168,811		134,210
2015 Refunding Bond	258,148	169,482	162,013		265,617
2016 GO Bond	43,742	41,009	40,317		44,434
Total Governmental Funds	<u>1,256,204</u>	<u>1,962,960</u>	<u>1,915,589</u>	<u>1,000</u>	<u>1,304,575</u>
Proprietary Funds					
Water	436,541	268,998	257,333		448,206
Sewer	562,849	140,490	78,253		625,086
Gas Distribution	1,379,956	546,149	473,557		1,452,548
EDA	23,777	3,995	5,811		21,961
Total Proprietary Funds	<u>2,403,123</u>	<u>959,632</u>	<u>814,954</u>	<u>-</u>	<u>2,547,801</u>
Total	<u>\$ 3,659,327</u>	<u>\$ 2,922,592</u>	<u>\$ 2,730,543</u>	<u>\$ 1,000</u>	<u>\$ 3,852,376</u>

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Honorable Mayor and
Members of the City Council
City of Hallock, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallock, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2022. The governmental activities and the aggregate remaining fund information had qualified opinions.

Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the schedule of findings as item 2021-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, in so far as they relate to accounting matters.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of compliance, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

June 28, 2022

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Hallock, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallock, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Hallock, Minnesota's basic financial statements, and have issued our report thereon dated June 28, 2022. The governmental activities, business-type activities, gas distribution fund, and the aggregate remaining fund information had qualified opinions.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hallock's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hallock's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and corrective action plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

June 28, 2022

CITY OF HALLOCK
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-001 FINDING

Criteria

An appropriate system of internal control requires the City to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City currently does not prepare the financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The City elected to have the auditors assist with the preparation of the financial statements for efficiency.

Effect

There is an increased risk of material misstatement to the City's financial statements.

Recommendation

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statement and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will review on an annual basis.

CITY OF HALLOCK
SCHEDULE OF FINDINGS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-002 FINDING

Criteria

Generally, a system of internal control contemplates a separation of duties that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition

Lack of sufficient segregation of duties. We noted the following during our audit.

- Utility accounts receivable subsidiary records were not reconciled to the general ledger.
- Payroll liability accounts were not reconciled.
- There was no subsidiary ledger for the Meter Deposit Liability.
- The City did not pay the TIF-C Motel Developer the 2nd half 2018 tax increment revenue or the 2019 or 2020 tax increment revenue.
- The Small Cities Grant fund balance is understated by \$14,482.
- The City Council approved budget did not agree to the general ledger.
- The City does not have internal controls in place to identify and set up due from other governments' balances.
- The City Council did not approve the electronic fund transfers.
- The City's July 2021 settlement included \$7,080 TIF A, but TIF A had been decertified in a prior year.
- The City deposited the November 2021 Tax Settlement in January 2022.
- The City's gas margin decreased from 61% in 2020 to 49% in 2021.

Cause

Lack of oversight.

Effect

The design of the internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

- Balance sheet accounts should be reconciled monthly.
- Subsidiary ledger should be maintained of the "Meter Deposit" Account.
- Controls over TIF payments should be established.
- Small Cities grant should be reviewed.
- Controls over grant receivables should be established.
- City Council should approve all payments, including the electronic fund transfers.
- Contact the County and determine the source of the \$7,080.
- Deposit cash timely.
- Establish procedures to monitor gas margins

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendations and will implement.

CITY OF HALLOCK
SCHEDULE OF FINDINGS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-003 FINDING

Criteria

MN statute §345.38-.43 requires all unclaimed or uncashed checks or other intangible property held for more than three years (or one year for unpaid compensation) to be reported to the State Commissioner of Commerce.

Condition

The City has uncashed checks in excess of three years that have not been reported to the State Commissioner of Commerce.

Cause

Oversight.

Effect

The City is not in compliance with Minnesota State Statutes regarding unclaimed property.

Recommendation

We recommend the City report all uncashed checks in excess of three years old to the State Commissioner of Commerce.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will implement immediately.

CITY OF HALLOCK
CORRECTIVE ACTION PLAN
DECEMBER 31, 2021

2021-001 FINDING

Contact Person – Dave Treumer, Mayor

Corrective Action Plan – Will establish a policy to document review of financial statement and notes.

Completion Date – Ongoing

2021-002 FINDING

Contact Person – Dave Treumer, Mayor

Corrective Action Plan –

The City Clerk/Administrator will review the following and provide reports to the Council as needed:

- Balance sheet accounts reconciled monthly.

Completion Date – Immediately

2021-003 FINDING

Contact Person – Dave Treumer, Mayor

Corrective Action Plan – The City will report all uncashed checks in excess of three years old to the State Commissioner of Commerce.

Completion Date – Immediately